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BARRON'S FINANCIAL GUIDES

Dictionary of Finance and Investment Terms

Over 3000 terms clearly defined and explained

Covers stocks and bonds, banking, corporate finance, and more, in accordance with Federal income tax revisions

Illustrated

Third Edition

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an UPTICK (the last price was higher than the price before it) or a ZERO PLUS TICK (the last price was unchanged but higher than the last preceding different price).

BEAR SPREAD strategy in the options market designed to take advantage of a fall in the price of a security or commodity. Someone executing a bear spread could buy a combination of calls and puts on the same security at different *strike prices* in order to profit as the security's price fell. Or the investor could buy a put of short maturity and a put of long maturity in order to profit from the difference between the two puts as prices fell. *See also* BULL SPREAD.

BELL signal that opens and closes trading on major exchanges—sometimes actually a bell but sometimes a buzzer sound.

BELLWETHER security seen as an indicator of a market's direction. In stocks, International Business Machines (IBM) has long been considered a bellwether because so much of its stock is owned by institutional investors who have much control over supply and demand on the stock market. Institutional trading actions tend to influence smaller investors and therefore the market generally. In bonds, the 20-year U.S. Treasury bond is considered the bellwether, denoting the direction in which all other bonds are likely to move.

BELOW PAR *see* PAR VALUE.

BENEFICIAL OWNER person who enjoys the benefits of ownership even though title is in another name. When shares of a mutual fund are held by a custodian bank or when securities are held by a broker in STREET NAME, the real owner is the beneficial owner, even though, for safety or convenience, the bank or broker holds title.

BENEFICIARY

1. person to whom an inheritance passes as the result of being named in a will.
2. recipient of the proceeds of a life insurance policy.
3. party in whose favor a LETTER OF CREDIT is issued.
4. one to whom the amount of an ANNUITY is payable.
5. party for whose benefit a TRUST exists.

BEST EFFORT arrangement whereby investment bankers, acting as agents, agree to do their best to sell an issue to the public. Instead of buying the securities outright, these agents have an option to buy and an authority to sell the securities. Depending on the contract, the agents exercise their option and buy enough shares to cover their sales to clients, or they cancel the incompletely sold issue altogether and forgo the fee. Best efforts deals, which were common prior to 1900, entailed risks and delays from the issuer's standpoint. What is more, the broadening of the securities markets has made marketing new issues easier, and the practice of outright purchase by investment bankers, called FIRM COMMITMENT underwriting, has become commonplace. For the most part, the best efforts deals we occasionally see today are handled by firms specializing in the more speculative securities of new and unseasoned companies. *See also* BOUGHT DEAL.

BEST'S RATING rating of financial soundness given to insurance companies by Best's Rating Service. The top rating is A+. A Best's rating is important to buyers of insurance or annuities because it informs them whether a company is financially sound. Best's Ratings are also important to investors in insurance stocks.

BETA

1. coefficient measuring a stock's relative VOLATILITY. The beta is the covariance of a stock in relation to the rest of the stock market. The Standard & Poor's 500 Stock Index has a beta coefficient of 1. Any stock with a higher beta is more volatile than the market, and any with a lower beta can be expected to rise and fall more slowly than the market. A conservative investor whose main concern is preservation of capital should focus on stocks with low betas, whereas one willing to take high risks in an effort to earn high rewards should look for high-beta stocks. *See also* ALPHA.
2. on the London Stock Exchange, the designation *beta stocks* applies to the second tier in a four-level hierarchy introduced with BIG BANG in October 1986. With ALPHA stocks representing the equivalent of American BLUE CHIP issues, beta stocks represent smaller issues that are less actively traded. *See also* DELTA (2); GAMMA STOCKS.

BID AND ASKED bid is the highest price a prospective buyer is prepared to pay at a particular time for a trading unit of a given security; asked is the lowest price acceptable to a prospective seller of the same security. Together, the two prices constitute a QUOTATION; the difference between the two prices is the SPREAD. Although the bid and asked dynamic is common to all securities trading, "bid and asked" usually refers to UNLISTED SECURITIES traded OVER THE COUNTER.

BIDDING UP practice whereby the price bid for a security is successively moved higher lest an upswing in prices leaves orders unexecuted. An example would be an investor wanting to purchase a sizable quantity of shares in a rising market, using buy limit orders (orders to buy at a specified price or lower) to ensure the most favorable price. Since offer prices are moving up with the market, the investor must move his limit buy price upward to continue accumulating shares. To some extent the buyer is contributing to the upward price pressure on the stock, but most of the price rise is out of his control.

O

OBLIGATION BOND type of mortgage bond in which the face value is greater than the value of the underlying property. The difference compensates the lender for costs exceeding the mortgage value.

OBLIGOR one who has an obligation, such as an issuer of bonds, a borrower of money from a bank or another source, or a credit customer of a business supplier or retailer. The obligor (*obligator, debtor*) is legally bound to pay a debt, including interest, when due.

ODD LOT securities trade made for less than the NORMAL TRADING UNIT (termed a ROUND LOT). In stock trading, any purchase or sale of less than 100 shares is considered an odd lot, although inactive stocks generally trade in round lots of 10 shares. An investor buying or selling an odd lot pays a higher commission rate than someone making a round-lot trade. This odd-lot differential varies among brokers but for stocks is often ⅛ of a point (12½¢) per share. For instance, someone buying 100 shares of XYZ at $70 would pay $70 a share plus commission. At the same time, someone buying only 50 shares of XYZ would pay $70⅛ a share plus commission. *See also* ODD-LOT DEALER; ODD-LOT SHORT-SALE RATIO; ODD-LOT THEORY.

ODD-LOT DEALER originally a dealer who bought round lots of stock and resold it in odd lots to retail brokers who, in turn, accommodated their smaller customers at the regular commission rate plus an extra charge, called the odd-lot differential. The assembling of round lots from odd lots is now a service provided free by New York Stock Exchange specialists to member brokers, and odd-lot transactions can be executed through most brokers serving the retail public. Brokers handling odd lots do, however, receive extra compensation; it varies with the broker, but ⅛ of a point (12½¢) per share in addition to a regular commission is typical. *See also* ODD-LOT.

ODD-LOT SHORT-SALE RATIO ratio obtained by dividing ODD LOT short sales by total odd-lot sales, using New York Stock Exchange (NYSE) statistics; also called the *odd-lot selling indicator*. Historically, odd-lot investors—those who buy and sell in less than 100-share round lots—react to market highs and lows; when the market reaches a low point, odd-lot short sales reach a high point, and vice versa. The odd-lot ratio has followed the opposite pattern of the NYSE MEMBER SHORT SALE RATIO. *See also* ODD-LOT THEORY.

ODD-LOT THEORY historical theory that the ODD LOT investor—the small personal investor who trades in less than 100-share quantities—is usually guilty of bad timing and that profits can be made by acting contrary to odd-lot trading patterns. Heavy odd-lot buying in a rising market is interpreted by proponents of this theory as a sign of technical weakness and the signal of a market reversal. Conversely, an increase of odd-lot selling in a declining market is seen as a sign of technical strength and a signal to buy. In fact, analyses of odd-lot trading over the years fail to bear out the theory with any real degree of consistency, and it has fallen into disfavor in recent years. It is also a fact that odd-lot customers generally, who tend to buy market leaders, have fared rather well in the upward market that has prevailed over the last fifty years or so. *See also* ODD-LOT SHORT-SALE RATIO.

OEX pronounced as three letters, Wall Street shorthand for the Standard & Poor's 100 stock index, which comprises stocks for which options are traded on the Chicago Board Options Exchange. OEX index options are traded on the Chicago Board of Trade, and futures are traded on the Chicago Mercantile Exchange. *See also* STOCK INDEXES AND AVERAGES.

OFF-BOARD off the exchange (the New York Stock Exchange is known as the Big Board, hence the term). The term is used either for a trade that is executed OVER THE COUNTER or for a transaction entailing listed securities that is not completed on a national exchange. Over-the-counter trading is handled by telephone, with competitive bidding carried on constantly by market makers in a particular stock. The other kind of off-board trade occurs when a block of stock is exchanged between customers of a brokerage firm, or between a customer and the firm itself if the brokerage house wants to buy or sell securities from its own inventory. *See also* THIRD MARKET.

OFFER price at which someone who owns a security offers to sell it; also known as the ASKED PRICE. This price is listed in newspapers for stocks traded OVER THE COUNTER. The bid price—the price at which someone is prepared to buy—is also shown. The bid price is always lower than the offer price. *See also* OFFERING PRICE.

OFFERING *see* PUBLIC OFFERING.

OFFERING CIRCULAR *see* PROSPECTUS.

OFFERING DATE date on which a distribution of stocks or bonds will first be available for sale to the public. *See also* DATED DATE; PUBLIC OFFERING.

OFFERING PRICE price per share at which a new or secondary distribution of securities is offered for sale to the public; also called PUBLIC OFFERING PRICE. For instance, if a new issue of XYZ stock is priced at $40 a share, the offering price is $40.

gations of both parties to a trade are fulfilled. The OCC also processes the exchange of money on all options trades and maintains records of those trades. Its prospectus is given to all investors to read before they can trade in options. This prospectus outlines the rules and risks of trading and sets the standards for ethical conduct on the part of options traders. *See also* OPTION.

OPTION SERIES options of the same class (puts or calls with the same underlying security) that also have the same EXERCISE PRICE and maturity month. For instance, all XYZ October 80 calls are a series, as are all ABC July 100 puts. *See also* OPTION.

OPTION SPREAD buying and selling of options within the same CLASS at the same time. The investor who uses the OPTION spread strategy hopes to profit from the widening or narrowing of the SPREAD between the various options. Option spreads can be designed to be profitable in either up or down markets.

Some examples:

(1) entering into two options at the same EXERCISE PRICE, but with different maturity dates. For instance, an investor could buy an XYZ April 60 call and sell an XYZ July 60 call.

(2) entering into two options at different STRIKE PRICES with the same expiration month. For example, an investor could buy an XYZ April 60 call and sell an XYZ April 70 call.

(3) entering into two options at different strike prices with different expiration months. For instance, an investor could buy an XYZ April 60 call and sell an XYZ July 70 call.

OPTION WRITER person or financial institution that sells put and call options. A writer of a PUT OPTION contracts to buy 100 shares of stock from the put option buyer by a certain date for a fixed price. For example, an option writer who sells XYZ April 50 put agrees to buy XYZ stock from the put buyer at $50 a share any time until the contract expires in April.

A writer of a CALL OPTION, on the other hand, guarantees to sell the call option buyer the underlying stock at a particular price before a certain date. For instance, a writer of an XYZ April 50 call agrees to sell stock at $50 a share to the call buyer any time before April.

In exchange for granting this right, the option writer receives a payment called an OPTION PREMIUM. For holders of large portfolios of the premiums from stocks, option writing therefore is a source of additional income.

OR BETTER Indication, abbreviated OB on the ORDER TICKET of a LIMIT ORDER to buy or sell securities, that the broker should transact the order at a price better than the specified LIMIT PRICE if a better price can be obtained.

ORDER

Investments: instruction to a broker or dealer to buy or sell securities or commodities. Securities orders fall into four basic categories: MARKET ORDER, LIMIT ORDER, time order, and STOP ORDER.

Law: direction from a court of jurisdiction, or a regulation.

Negotiable instruments: payee's request to the maker, as on a check stating, "Pay to the order of (when presented by) John Doe."

Trade: request to buy, sell, deliver, or receive goods or services which commits the issuer of the order to the terms specified.

ORDER TICKET form completed by a registered representative (ACCOUNT EXECUTIVE) of a brokerage firm, upon receiving order instructions from a customer. It shows whether the order is to buy or to sell, the number of units, the name of the security, the kind of order (ORDER MARKET, LIMIT ORDER or STOP ORDER) and the customer's name or code number. After execution of the order on the exchange floor or in the firm's trading department (if over the counter), the price is written and circled on the order ticket, and the completing broker is indicated by number. The order ticket must be retained for a certain period in compliance with federal law.

ORDINARY INCOME income from the normal activities of an individual or business, as distinguished from CAPITAL GAINS from the sale of assets. Prior to the TAX REFORM ACT OF 1986, the long-term CAPITAL GAINS TAX was lower than that on ordinary income. The 1986 Act eliminated the preferential capital gains rate, but it kept the separate statutory language to allow for future increases in ordinary income rates.

ORDINARY INTEREST simple interest based on a 360-day year rather than on a 365-day year (the latter is called *exact interest*). The difference between the two bases when calculating daily interest on large sums of money can be substantial. The ratio of ordinary interest to exact interest is 1.0139.

ORGANIZATION CHART chart showing the interrelationships of positions within an organization in terms of authority and responsibility. There are basically three patterns of organization: *line organization*, in which a single manager has final authority over a group of foremen or middle management supervisors; *functional organization*, in which a general manager supervises a number of managers identified by function; and *line and staff organization*, which is a combination of line and functional organization, with specialists in particular functions holding staff positions where they advise line officers concerned with actual production.

ORIGINAL COST

1. in accounting, all costs associated with the acquisition of an asset.